Lesson No 1, Chancellor: cut our taxes

When Philip Hammond, far right, gives his first autumn statement he will be following in the footsteps of, from left, John Major, Norman Lamont, Kenneth Clarke, Gordon Brown, Alistair Darling and George Osborne. Tax cuts could ease fears Brexit will hit living standards

Philip Hammond will deliver his first mini-budget on Wednesday. Will he let us keep more of our money?

PERSONAL ACCOUNT

Ian Cowie

Income tax is turning into a battleground between different factions in the Conservative government of our newish prime minister, Theresa May. There are laissez-faire, low-tax enthusiasts and more interventionist, nanny-knows-best Tories. This week's autumn statement, the first from newbie chancellor Philip Hammond, will show which side is winning.

One way or another, by the time of the next general election — due on May 7, 2020 — most of us should be able to earn about twice as much tax-free as we could when the Conservatives returned to power in 2010. The Tory party's last manifesto pledged to raise the personal allowance, or starting point for income tax, to £12,500 a year and to lift the threshold for higher-rate income tax to £50,000 by the time we are next due to vote.

These were punchy proposals from the then chancellor, George Osborne, particularly when you consider that, when he got the job, the tax-free personal allowance was just £6,475 and the threshold for starting to pay higher-rate tax was £43,875. Since 2010, Osborne's tax-cutting policies have freed about 2.5m people from paying any income tax at all by raising the personal allowance to its current level of £11,000.

Sadly for him, the global credit crisis meant the money for all this had to be found somewhere else, so a heavier burden fell on the "squeezed middle".

Even so, by last summer — when the Bullingdon Club Tories self-destructed on the rock of Brexit — Osborne seemed to have got his fiscal strategy pointing in the desired direction, with what turned out to be his parting promise in the budget last March to raise the personal allowance to £11,500 next April. If his longer-term plans to get it up to £12,500 are ever realised, Treasury figures show this would mean a tax cut for 30m people.

Now, like David Cameron, Osborne finds that he "was the future once" and cruel backbenchers quip: "We'll never forget old what's-his-name." Never mind what voters were promised in the past; it will be today's chancellor, Hammond, who decides what happens in future.

To mix political metaphors, the roundheads have routed the cavaliers — in Downing Street, at least — and now grey man Hammond is bean-counter-in-chief for chairman May's blue guard. No wonder even accountants close to Treasury calculations say they haven't a clue whether higher personal allowances will remain a priority after the Conservatives' cultural revolution has run its course.

Why should we care? Because tax is the point at which politics turns into more than hot air and hits us in the pocket. Enthusiasts for small government and big tax cuts claim Hammond may even accelerate Osborne's plans to let us keep more of what we earn — by setting a personal allowance target of £12,950 by the time of the next general election, precisely double the one inherited by Osborne from Labour.

They say this would help dispel fears that Brexit will damage living standards, the boost to take-home pay offsetting the "Marmite factor" of higher shop prices caused by the plunging value of the pound against the euro. One senior accountant, who asked not to be named, told me: "Hammond could well decide to grab the headlines and say that he will double the allowance his government inherited.

"He can, and will, say that everything changed with Brexit, let alone Trump, and that balancing the budget can be deferred for a while. The theme is a government that benefits everybody."

The accountant added: "Hammond once told me that he favoured sharing the benefits of growth between the Treasury and taxpayers. I don't think his basic philosophy has changed."

But George Bull, senior tax partner at the accountancy firm RSM, was more cautious: "Hammond has indicated that he does not feel bound by the policies of his predecessor, Osborne, and certainly not those which have yet to be enacted.

"We could see a shake-up this week if he decides to pull a few rabbits out of the hat — such as raising the personal allowance and the higher-rate threshold. While that would produce a feelgood factor now, it would leave the chancellor with little room for manoeuvre later, and I expect Hammond will reserve his largesse for a budget closer to the next general election."

Other experts who doubt we will see big tax cuts next week include Tina Riches and Patricia Mock at, respectively, the accountancy firms Smith & Williamson and Deloitte.

Mock told me: "We think it unlikely that the chancellor will raise the personal allowance, mainly because of the costs involved. Increasing the personal allowance by an additional £500 would cost around an extra £4bn a year."

The good news is that everyone can already award themselves a tax cut. For example, putting cash in a pension immediately reduces your gross or taxable income, because of what is known in the industry as "front-end relief".

Similarly, "salary sacrifice" — another awful bit of jargon — enables many employees to avoid tax and national insurance contributions by asking their employer to pay them less and put the difference into a pension or use the cash to fund childcare. This payroll manoeuvre may also be used to avoid higher-rate tax and punitive clawback rules that can otherwise cause the loss of child benefit and the personal allowance; the latter would be wiped out altogether next year for those paid more than £123,000.

While there is only so much that human flesh can bear, it's fair to add that none of the above need necessarily apply to people who live in Scotland after next April. My Caledonian cousins and other relatives will soon have their own tax rules to remember, when the Scottish Parliament hears its own budget proposals on December 15.

So that's something for the Scots to look forward to. For the rest of us, let's hope Hammond sticks to Osborne's tax-cutting hymn sheet this week. Whatever else our chancellor does, he should resist succumbing to the politicians' delusion that they need our money more than we do.

HE CAN, AND WILL, SAY THAT EVERYTHING CHANGED WITH BREXIT, LET ALONE TRUMP

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Criminals case the joint accounts

Money miscellany

Coins bearing Edward VIII's portrait are called "absent pennies", as they were never circulated

Beware the hidden risk of joint bank accounts. Most husbands and wives — or, indeed, civil partners — might imagine that the convenience of sharing an account creates no extra dangers for family finances.

But my colleague Ali Hussain's brilliant exposé last weekend of the scale of unreported fraud by bank staff reminded me of an example uncovered by my wife, Sue, more than 20 years ago. She had spotted a suspicious withdrawal of £50 from our joint account and queried it with Halifax.

At first the bank said she must have taken the cash from its branch in the Strand, around the corner from where she worked in Whitehall. Then, when she pointed out that she hadn't, the bank said I must have done so.

As it happened, at that precise time I was in South America on one of the "emerging markets world tours" that were such a fun feature of financial journalism back in the 1990s. So we knew it couldn't be me.

Finally, Halifax admitted that one of its counter staff had been "playing one end off against the other" by stealing cash from customers' joint accounts in the hope that both partners would assume the other had made the withdrawals. Who says fraud has to be complicated?

It was, insisted the bank, an isolated incident and we were refunded in full.

Even so, I would urge all people with joint accounts to read their bank statements carefully to ensure they are not affected by an "isolated incident".

ST DIGITAL

Read a breakdown of Ian Cowie's 'forever fund'

thesundaytimes.co.uk/cowieholdings

Funds' rip-off fees attacked

Nina Montagu-Smith

FUND management companies are making profits of almost 40%, according to a damning study published by the Financial Conduct Authority (FCA) last week that describes the figure as "substantial".

The City regulator said the industry had been enjoying increasing profit margins for the past four years.

The figures will shock investors who rely on fund managers to look after their life savings at a reasonable cost. Energy companies, which are regularly vilified for their profits, have a margin of about 4%, according to the energy regulator.

The FCA launched an investigation into the £7 trillion asset management industry — £3 trillion of which is in pension funds — amid concerns that fund managers were charging too much and investors did not understand the charges they were paying.

The City regulator said: "There is limited price competition for actively managed funds, meaning that investors often pay high charges. On average, these costs are not justified by higher returns."

Even among passively managed — or tracker — funds, which do not require stock selection by fund managers, the FCA found unjustifiably high charges and "some examples of poor value for money".

About three-quarters of households who have a pension use a fund manager to look after their money, it found, highlighting the importance of the issue.

The FCA stopped short of naming and shaming funds. It said managers were often unclear about the objectives of funds and did not measure performance against a suitable benchmark.

The regulator proposed a package of remedies in an attempt to improve value. These include the introduction of a single all-in fee for funds, along with clear communication about what the fee is spent on.

Andrew Bailey, chief executive of the FCA, said: "Asset managers are responsible for the savings of millions of people in the UK. In today's world of persistently low interest rates, it is vital that we do everything possible to enable people to accumulate and earn a return on their savings [and] ease the burden on savers."

As Money revealed last month, the popular M&G Optimal Income fund, with £15.5bn under management, levied £34m in unspecified "administration fees" on top of its annual management charge during the 12 months to October 2015. Any surplus from this charge is kept by M&G.

The regulator is holding a consultation on its proposals that will run until February.